

**REPORT OF THE AUDIT OF THE
FORMER SCOTT COUNTY
SHERIFF'S SETTLEMENT – 2010 TAXES**

**For The Period
April 16, 2010 Through December 31, 2010**



**ADAM H. EDELEN
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
FORMER SCOTT COUNTY
SHERIFF'S SETTLEMENT – 2010 TAXES**

**For The Period
April 16, 2010 Through December 31, 2010**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement – 2010 Taxes for the former Scott County Sheriff for the period April 16, 2010 through December 31, 2010. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected taxes of \$22,840,067 for the districts for 2010 taxes, retaining commissions of \$782,705 to operate the former Sheriff's office. The former Sheriff distributed taxes of \$22,029,198 to the districts for 2010 taxes. Taxes of \$1,654 are due to the districts from the former Sheriff and refunds of \$2,078 are due to the former Sheriff from the taxing districts.

Report Comment:

2010-01 The Former Sheriff Should Have Implemented Control Procedures To Improve Financial Accountability Over Tax Collections

Deposits:

The former Sheriff's deposits were insured and collateralized by bank securities.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable George Lusby, Scott County Judge/Executive

Honorable Tony Hampton, Scott County Sheriff

Honorable Bobby Hammons, Former Scott County Sheriff

Members of the Scott County Fiscal Court

Independent Auditor's Report

We have audited the former Scott County Sheriff's Settlement – 2010 Taxes for the period April 16, 2010 through December 31, 2010. This tax settlement is the responsibility of the former Scott County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Scott County Sheriff's taxes charged, credited, and paid for the period April 16, 2010 through December 31, 2010 in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated December 15, 2011 on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable George Lusby, Scott County Judge/Executive
Honorable Tony Hampton, Scott County Sheriff
Honorable Bobby Hammons, Former Scott County Sheriff
Members of the Scott County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

2010-01 The Former Sheriff Should Have Implemented Control Procedures To Improve Financial Accountability Over Tax Collections

Respectfully submitted,

A handwritten signature in dark ink, appearing to read 'Adam H. Edelen', written in a cursive style.

Adam H. Edelen
Auditor of Public Accounts

December 15, 2011

SCOTT COUNTY
BOBBY HAMMONS, FORMER SHERIFF
SHERIFF'S SETTLEMENT – 2010 TAXES

For The Period April 16, 2010 Through December 31, 2010

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 2,149,003	\$ 3,458,551	\$ 13,934,939	\$ 4,150,536
Tangible Personal Property	209,184	392,869	755,024	831,280
Increases Through Exonerations	2,043	3,288	13,246	3,894
Omitted Taxes	3,758	6,040	18,834	19,946
Franchise Taxes	78,348	125,906	425,768	
Limestone, Sand and Mineral Reserves	441	709	2,858	840
Adjusted to Sheriff's Receipt	(528)	(849)	(3,423)	(1,006)
Gross Chargeable to Sheriff	<u>2,442,249</u>	<u>3,986,514</u>	<u>15,147,246</u>	<u>5,005,490</u>
<u>Credits</u>				
Exonerations	8,816	14,131	41,858	37,977
Discounts	39,754	65,384	246,978	84,591
Tax Bills Transferred To Incoming Sheriff:				
Real Estate	249,680	401,828	1,619,016	475,952
Tangible Personal Property	12,929	20,672	44,159	42,830
Unpaid Additional	400	647	2,641	812
Franchise Taxes	<u>39,562</u>	<u>63,560</u>	<u>227,255</u>	
Total Credits	<u>351,141</u>	<u>566,222</u>	<u>2,181,907</u>	<u>642,162</u>
Taxes Collected	2,091,108	3,420,292	12,965,339	4,363,328
Less: Commissions *	<u>88,872</u>	<u>145,362</u>	<u>363,029</u>	<u>185,442</u>
Taxes Due	2,002,236	3,274,930	12,602,310	4,177,886
Taxes Paid	1,999,099	3,270,807	12,587,460	4,171,832
Refunds (Current and Prior Year)	<u>3,109</u>	<u>4,900</u>	<u>14,668</u>	<u>5,911</u>
Due Districts or (Refund Due Sheriff) as of Completion of Audit	<u>\$ 28</u>	<u>\$ (777)</u>	<u>\$ 182</u>	<u>\$ 143</u>

* and ** See Next Page.

The accompanying notes are an integral part of this financial statement.

SCOTT COUNTY
BOBBY HAMMONS, FORMER SHERIFF
SHERIFF'S SETTLEMENT -2010 TAXES
For The Period April 16, 2010 Through December 31, 2010
(Continued)

* Commissions:

4.25% on	\$	9,874,728
2.8% on	\$	12,965,339

** Special Taxing Districts:

Library District	\$	(2,078)
Health District		1,296
Extension District		<u>5</u>

Due Districts or (Refund Due Sheriff)	\$	<u><u>(777)</u></u>
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SCOTT COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Scott County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2010
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Scott County Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of December 31, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2010. Property taxes were billed to finance governmental services for the year ended June 30, 2011. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 20, 2010 through December 31, 2010.

Note 4. Interest Income

The former Scott County Sheriff earned \$6,628 as interest income on 2010 taxes. As of December 15, 2011, the former Sheriff owed \$2,929 in interest to the school district and \$2,305 in interest to his fee account.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable George Lusby, Scott County Judge/Executive
Honorable Tony Hampton, Scott County Sheriff
Honorable Bobby Hammons, Former Scott County Sheriff
Members of the Scott County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the former Scott County Sheriff's Settlement – 2010 Taxes for the period April 16, 2010 through December 31, 2010, and have issued our report thereon dated December 15, 2011. The former Sheriff prepared his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the former Scott County Sheriff's office was responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the former Scott County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation to be a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the former Scott County Sheriff's Settlement - 2010 Taxes for the period April 16, 2010 through December 31, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Scott County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read 'Adam H. Edelen', with a long horizontal flourish extending to the right.

Adam H. Edelen
Auditor of Public Accounts

December 15, 2011

COMMENT AND RECOMMENDATION

SCOTT COUNTY
BOBBY HAMMONS, FORMER SHERIFF
COMMENT AND RECOMMENDATION

For The Period April 16, 2010 Through December 31, 2010

INTERNAL CONTROL - MATERIAL WEAKNESS:

2010-01 The Former Sheriff Should Have Implemented Control Procedures To Improve Financial Accountability Over Tax Collections

As a result of procedures conducted during the audit, it was determined that internal controls over tax collections and disbursements should have been implemented to improve financial accountability.

- The tax collectors (former Sheriff, bookkeeper, and deputy) reconciled their collections per drawer with the tax collection report each day. They indicated their agreement with the tax collection report by initialing the section applicable in the report. Someone else should have recounted their tax collections in their presence and initialed the applicable section of the tax collections report.
- At the end of each day, the bookkeeper compared bank deposits (collections) and total collected per daily tax collection report for agreement. She initialed the tax report to document her work; however, someone else should have reviewed her work. This review should have been documented by initialing the applicable part of the report.
- The bookkeeper collected and distributed franchise taxes. No one else compared bank deposits to paid franchise tax bills, reviewed detailed franchise tax reports, or reviewed the amounts placed on the monthly tax reports to make sure the franchise tax distribution was correct. The former Sheriff's bookkeeper could have continued to prepare the deposit slips for franchise tax collections; however, a different deputy should have compared paid franchise tax bills to bank deposits and prepared the detailed franchise tax reports. The bookkeeper should have reviewed these reports and initialed that this work was correct. The deputy should have reviewed the monthly tax reports to the districts, to make sure that the correct distribution was reported.
- The bookkeeper prepared the monthly tax reports to the taxing districts. These reports were reviewed by comparing checks written to the amounts listed on reports. The amounts listed on the monthly reports should have been compared to supporting documentation such as franchise collection reports, refund reports, and tax collection reports. These reports should also be reviewed for mathematical accuracy.
- The former Sheriff should have assigned someone other than the bookkeeper to complete a "Determination of Fund Balance" for the tax account at the end of each month. The bookkeeper should have reviewed the deputy's work and signed off when it was complete and accurate.

Former Sheriff's Response: No Response.

